MANAGEMENT INITIATIVE DECISION
EXECUTIVE SUMMARY

DATE: December 24, 2002   **VERSION:** Signed

MID 901

MID TITLE: Establishing Performance Outcomes and Tracking Performance Results for the Department of Defense.

MID SUMMARY: Management Initiative Decision 901 aligns OMB and DOD performance measurement activities [the President's Management Agenda (PMA); the 2001 Quadrennial Defense Review (QDR); and the Government Performance and Results Act of 1993 (GPRA)]. The MID assigns responsibility for OSD performance measurement collection and defines how supporting performance information will be managed and reported.

MID 901 requires OSD establish a framework for executive-level performance goals and tracking results. This MID shifts the department's focus to outcome results and aligns us to the 2001 QDR Risk Management framework. MID 901 assigns responsibility for refining and cascading performance metrics to the component level and requires each component appoint a GO/SES level Performance Management Coordinator (PMC).

Finally, MID 901 (and its companion -- MID 910), allows the Army to bring all of its Strategic Business Performance measures into one Performance Measurement Warehouse. There will be a requirement for additional resources, but anticipate they will not be significant.

ARMY POSITION ON COORDINATING MID: Concurred.

RECOMMENDATION: Accept Signed MID.

MID POC: Mr. Stephen Bagby   **APPROVED BY:** Mr. Robert W. Young
PHONE: 703-614-5517   **TITLE: DASA-CE**

COORDINATION: Draft

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MID <u>901</u>

TITLE: Establishing Performance Outcomes and Tracking
Performance Results for the Department of Defense

DATE: December 20, 2002

DECISION: The Deputy Secretary of Defense approved the
alternative estimate.

MANAGEMENT INITIATIVE DECISION No. 901

SUBJECT: Establishing Performance Outcomes and Tracking Performance Results for the Department of Defense

DOD COMPONENTS: Principal Staff Assistants, the Chairman of the Joint Chiefs of Staff, Military Departments, Defense Agencies, and Field Operating Agencies.

SUMMARY OF EVALUATION: The alternative aligns the Department's performance management activities with the President's Management Agenda and the risk management framework established in the 2001 Quadrennial Defense Review (QDR). It also defines how supporting performance information will be managed and reported.

Specifically, the alternative:

- Provides a framework for establishing executive-level performance goals and tracking results.

- Designates key performance outcomes within that framework, and identifies the performance measures and indicators that will be used to track progress towards the achievement of results.

- Assigns responsibility for refining and cascading performance metrics to the Component level.

- Combines the Secretary's Annual Defense Report (ADR) with the annual performance plan and performance report required by the Government Performance and Results Act (GPRA) of 1993, and designates responsibility for managing DoD GPRA compliance.

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DETAIL OF EVALUATION: The alternative consolidates the management goals of the President's Management Agenda with QDR performance goals under a balanced scorecard for risk management and designates metrics the Secretary will use to track associated performance results.

The Balanced Scorecard Concept

The balanced scorecard concept introduced by Professor Robert S. Kaplan and Dr. David P. Norton in the *Harvard Business Review* in 1992 cited four areas of management focus for a typical business activity:

1. Financial Perspective

2. Customer Perspective

3. Internal Business Process Perspective

4. Learning and Growth Perspective

The *Report of the 2001 Quadrennial Defense Review* tailors the balanced scorecard concept to the Department of Defense, thus providing a management framework to help defense managers to balance investment priorities against risk over time.

Tailoring a Balanced Score Concept (BSC) for Defense

In the past, the Department's management priorities were defined by near-term operational threats. This had the effect of crowding out investments in other critical areas. As a result, over the past decade, the Department spent too little on people, modernizing equipment, and maintaining the defense infrastructure.

The risk management framework introduced in the 2001 QDR is a central element of the defense strategy and gives the Secretary of Defense a disciplined way of measuring near- and mid-term defense outputs against longer-term strategic goals.

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This DoD risk management framework is:

- **Force Management Risk**—providing a trained and ready force is the leading output or *business* of the Department of Defense.

- **Operational Risk**—ensuring U.S. military and civilian personnel are ready at all times to accomplish the range of missions assigned them in the defense strategy is the leading defense *customer* priority.

- **Future Challenges Risk**—anticipating future threats and adjusting capabilities to maintain a military advantage against them is the leading *learning and growth* priority for the Department of Defense.

- **Institutional Risk**—ensuring that DoD financial, acquisition, and resource management processes are streamlined and efficient is what drives the underlying *financial* principles of doing defense business.

The President's Management Agenda (PMA)

The PMA, announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal Government. It focuses on five areas of management weakness across the government where improvements and the most progress can be made:

- Strategic Management of Human Capital

- Competitive Sourcing

- Improved Financial Reporting

- Expanded E-Government

- Budget and Performance Integration

The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) is the DoD lead for implementing the PMA. He has established a series of supporting scorecards for each PMA reform initiative. PMA outcomes for each reform area will be incorporated into the supporting performance metrics for the Department's BSC for risk management, as described below.

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Management Reports and Reviews

In an effort to align the many competing performance management processes within the Department, this alternative establishes performance outcomes for each quadrant of the BSC for DoD risk management (Table 1). To streamline reporting authorities, the alternative also assigns a responsible Principal Staff Assistant for each supporting performance measure or indicator (Table 2). Table 3 crosswalks DoD performance outcomes for risk management with supporting measures.

Performance information developed from the metrics listed in Table 2 will be used to describe the Department's performance goals and results for all related performance reports, including those required under the PMA and GPRA. In addition, this alternative combines the ADR, the GPRA performance plan, and the GPRA performance report into a single document, beginning with the FY 2004 President's Budget.

MID 910 will provide instructions to the Components on reflecting performance metrics in the FY 2004 congressional justifications consistent with the PMA initiative on Budget and Performance Integration.

Responsibilities

The **Under Secretary of Defense for Personnel and Readiness (USD(P&R))** is responsible for managing and monitoring the Department's compliance with the PMA, and for reporting and evaluating performance results consistent with the BSC for risk management.

The **Executive Secretary of the Senior Executive Council (SEC)**, in coordination with the **Director of Program Analysis and Evaluation (DPA&E)**, will identify appropriate performance outcomes for the risk management framework.

Consistent with the assignments listed in Table 2 of this alternative, the **Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L))**; the **Under Secretary of Defense for Policy (USD(P))**; the **USD(P&R)**; the **Under Secretary of Defense (Comptroller)(USD(C))**; the **Assistant Secretary of Defense for Command, Control, Communications and Intelligence (ASD(C3I))**; the **DPA&E**; the **Director of the Office of Force**

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Transformation (D,OTF); and the **Chairman, Joint Chiefs of Staff** will:

- Recommend annual performance targets (or changes to existing targets) for performance metrics supporting the PMA and risk management framework.

- Collect and review actual performance results.

- Verify and validate all reported performance results at least to the standards established in Office of Management and Budget (OMB) Circular A-11, Part 6.

- Following year of execution, show what management activities were undertaken during the previous year to improve the Department's ability to achieve its performance targets, and explain why those activities did not succeed or how they improved performance.

- Justify and defend performance targets and results to the SEC, the Deputy Secretary and Secretary of Defense, Congress, and interested parties (to include the General Accounting Office and the DoD Inspector General).

The **DPA&E,** in coordination with the **Principal Staff Assistants,** will prepare the Department's GPRA performance plan and GPRA performance report. In addition, the **DPA&E,** in coordination with the **USD(C) and the Office of the Executive Secretary,** will oversee the integration of GPRA submissions with the Annual Defense Report and other statutory reports, as appropriate. After 18 months, the DPA&E will assess whether the tasks and responsibilities directed in this alternative are sufficient for managing the overall process, and will recommend any needed revisions or enhancements to the **Deputy Secretary.**

The **Directors of Defense Agencies** will incorporate the BSC for risk management into the annual performance plans, consistent with the **Deputy Secretary's** memorandum of April 12, 2003, "Defense Agency Performance Plans." Before October 1, 2003, Directors will revise any FY 2004 performance plans submitted with their Program Objective Memoranda (POMs) that do not conform to the BSC risk management framework. This will allow

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the Department to consider BSC results in evaluating execution performance.

The **DPA&E** will collect and evaluate Defense Agencies' BSCs as part of the annual POM submission, and with the **USD(C)**, will monitor the agencies' quarterly performance reporting.

Components and Defense Agencies are responsible for designating a Senior Executive- or flag-level **Performance Management Coordinator (PMC)**. The name of the Component PMC should be submitted to the Executive Secretary of the SEC within two weeks of the signing of this MID. In addition, Components will ensure that their individual performance plans and BSCs:

- Reflect the BSC quadrants associated with the Department's risk management framework.

- Reflect the performance objectives established under the Department's BSC for the QDR risk management framework.

- Align with and support the outcomes and supporting performance metrics of its next higher organization.

FORCE MANAGEMENT RISK

Maintain a Quality Workforce	Ensure Sustainable Military Tempo Maintain Workforce Satisfaction
Maintain Reasonable Force Costs	Shape the Force of the Future

OPERATIONAL RISK

Do We Have the Forces Available?	Are They Currently Ready?
What Are the Critical Needs, Systems, People, Sustainment, and Infrastructure?	Are We Prepared for Successful Strategy and Plan Execution?

INSTITUTIONAL RISK

Streamline Decision Processes Drive Financial Management and Acquisition Excellence	Improve the Readiness and Quality of Key Facilities
Manage Overhead / Indirect Cost	Realign Support to the Warfighter (including Defense Agencies

FUTURE CHALLENGES RISK

Drive Innovative Joint Operations (CONOPs, Experiments, etc.)	Define Future Human Capital Skills and Competencies
Develop More Effective Organizations	Define and Develop Transformational Capabilities

Table 1. Performance Outcomes

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Under Secretary of Defense (Acquisition, Technology, and Logistics)

- Metrics to support Acquisition Excellence goals

- Facilities recapitalization rate

- Amount of inadequate family housing

- Restore readiness of key facilities

- Base Realignment and Closure in FY 2005

- Average major defense acquisition program (MDAP) cycle time

- Annual MDAP cost growth

- Annual MDAP operating and support (O&S) cost growth

- Average customer wait time

- Maintain balanced and focused Science and Technology

- Number of Advanced Concept Demonstrations Completed

- Apply core/non-core lessons learned to improve FAIR inventory

Under Secretary of Defense (Personnel and Readiness)

- Maintain end strength within 2% of authorized

- Recruiting goals met

- Retention goals met

- PERSTEMPO standards met

- Support Joint Force Presence Policy

- Quality of Life (QoL) social compact improvement

- Commitment to Service

- Satisfaction with health care plan, access, and care

Table 2: Performance Metrics and Responsible PSAs

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Under Secretary of Defense (Personnel and Readiness) (Continued)

- Cost per recruited enlisted service member through basic training

- QoL per capita cost

- Total paid compensation (military; civilian; contract)

- Health care system meets key annual performance goals

- President's Management Agenda*

- Classified measures

- Develop mission-based DoD Readiness Reporting System (DRRS)

- Establish a training transformation plan

- Establish a Joint National Training Center

* The USD(P&R) is the DoD lead managing compliance with the President's Management Agenda.

Under Secretary of Defense (Policy)

- Develop and define US defense strategy and key policies

- Transform contingency planning guidance using adaptative planning concepts

- Frame major plannning and resource choices via a restructured Defense Planning Guidance

Under Secretary of Defense (Comptroller)

- Implement realignment recommendations approved by the Senior Executive Council

- Improve the transparency of component submissions for alignment of budget review to strategic trades

- Provide explicit guidance for budget and performance integration

Table 2:   Performance Metrics and Responsible PSAs (Continued)

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<u>Chairman of the Joint Chiefs of Staff</u>

- Develop a Joint Operational Concept

- Improve Joint Quarterly Readiness Review (JQRR) process

- Revise contingency and operational plans based on contingency planning guidance and defense strategy

- Experiment with new warfare concepts

- Establish a joint force presence policy

- Establish a standing joint force headquarters

- Enhance homeland defense and consequence management

<u>Assistant Secretary of Defense (Command, Control,</u>

<u>Communications and Intelligence)</u>

- Ensure we have the C4ISR capability we need

- Make information available on a network that people depend on and trust

- Populate the network with new, dynamic sources of information to defeat the enemy

- Deny enemy advantages and exploit weaknesses

Table 2: Performance Metrics and Responsible PSAs (Continued)

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Director, Program Analysis and Evaluation

- Improve the transparency of component submissions for alignment of program review to strategic trades

- Provide explicit fiscal guidance for program development

- Percentage of DoD budget spent on infrastructure

Director, Office of Force Transformation

- Establish human skill sets for transformed force in a networked environment

- Establish and monitor progress of transformation plans

- Define National capabilities priority set and timeline development

Table 2: Performance Metrics and Responsible PSAs (Continued).

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Force Management Risk	
Maintain a Quality Force • End-Strength Within 2% of Authorized • Recruiting Goals Met* • Retention Goals Met*	**Ensure Sustainable Military Tempo** • Maintain PERSTEMPO standards* • Support Joint Presence Policy* • Commitment to Service* • Quality of Life (QoL) Social Compact Improvement* • Satisfaction With Health Care Plan, Access, Care
Maintain Reasonable Force Costs *(Indicators)* • Cost/Recruited Enlisted Service Member Through Basic Training* • Total Paid Compensation • QoL per Capita Cost • Heath Care System Meets Performance Goals	**Shape the Force of the Future** • Apply core/non-core lessons learned to improve FAIR inventory*

* Developmental activity or metric (or supported by developmental metric).

Table 3. Performance Outcomes for Risk Management and Supporting Performance Measures and Indicators

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Institutional Risk	
Streamline the Decision Process, Drive Financial Management and Acquisition Excellence • Frame major plannning and resource choices via a restructured Defense Planning Guidance * • Improve transparency of component submissions (program and budget)* • Provide explicit guidance (budget and performance integration)* • Metrics to Support Acquisition Excellence Goals* * President's Management Agenda*	**Improve the Readiness and Quality of Key Facilities** • Facilities Recapitalization Rate* • Readiness of Key Facilities* • Amount of Inadequate Family Housing* • Base Realignment and Closure in FY 2005
Realign Support to the Warfighter (Including Defense Agencies) • Implement SEC Realignment Recommendations* • Average Major Defense Acquisition Program (MDAP) Cycle Time • Annual MDAP Cost Growth • Annual MDAP Operating and Support Cost Growth* • Average Customer Wait Time*	**Manage Overhead and Indirect Cost** • Percentage of DoD budget spent on infrastructure

* Developmental activity or metric (or supported by developmental metric).

Table 3.   Performance Outcomes for Risk Management and Supporting Performance Measures and Indicators (Continued)

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Future Challenges Risk	
Drive Joint Operations (CONOPs, Experiments, etc.) • Number of Advanced Concept Demonstrations Completed • Experiment with New Warfare Concepts*	**Define Future Human Capital Skills and Competencies** • Establish a Joint National Training Center* • Establish a Training Transformation Plan* • Establish a human skills set for a transformed force in a networked environment*
Develop More Effective Organizations • Enhance Homeland Defense and Consequence Management* • Establish a Standing Joint Force Headquarters* • Establish a Joint Force Presence Policy*	**Define and Develop Transformational Capabilities** • Establish and Monitor Progress of Transformation Plans* • Define National Capabilities Priority Set and Timeline Development* • Balanced and focused Science and Technology Program • Exploit the U.S. Intelligence Advantage*

Operational Risk	
Do We Have the Forces Available? • Develop a Joint Operational Concept*	**Are They Currently Ready?** • Develop Mission-Based DoD Readiness Reporting System* • Ensure We Have the C4ISR Capability We Need*
Are Critical Needs, Systems, People, Sustainment, and Infrastructure Available? • Adapt Joint Quarterly Readiness Review (JQRR) process *	Are We Prepared for Successful Strategy and Plan Execution? • Develop and define US defense strategy and key policies • Transform Contingency Planning Guidance (CPG) using adaptative planning concepts* • Revise Contingency and Operational Plans based on CPG and defense strategy*

Developmental activity or metric (or supported by developmental metric).

Table 3. Performance Outcomes for Risk Management and Supporting Performance Measures and Indicators (Continued)

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